

Utilities – Renewable Energy

Energy Regulatory Insights; Residential Projects To Experience Slowdown In 1Q26

Highlights

- The year-end Energy Regulatory Insight 2025 (ERI 2025), organised by Energy Commission Malaysia (EC), featured dialogue sessions and insights into Malaysia's evolving energy landscape and regulatory framework.
- Near-term focus including: a) an optimal tariff structure with the AFA, b) regasification plants to address depleting indigenous gas supply, and c) longer-term electricity market liberalisation.
- The ATAP regulation has been published and we expect a slowdown in residential rooftop solar take-up as electricity prices are expected to ease in 1Q26. We prefer well-diversified RE players like PEKAT as its orderbook and opportunities remain robust over the next five years. **Maintain OVERWEIGHT.**

Analysis

- EC outlines its strategic priorities going forward.** It will focus on the following areas: a) tariff reform to align the electricity pricing framework with Malaysia's energy roadmap, eg introduction of the Automatic Fuel Adjustment (AFA) mechanism, which will enable end-consumers to receive monthly rebates; b) address the depleting gas supply with regasification award; and c) eventual liberalisation of the electricity market.
- Potential revisions on BESS adoption under SELCO and CRESS.** In 1H26, the regulator may potentially review the self-consumption (SELCO) and corporate renewable energy supply scheme (CRESS) requirement for minimum battery energy storage system (BESS) capacity. Currently, the SELCO scheme requires a BESS to carry a minimum of one hour full-load output of the solar PV system. Under the CRESS scheme, a BESS is required to have at least 50% of the RE export capacity and four hours of storage in order to qualify for "firm output". Industry players have highlighted concerns regarding the high upfront cost and the potential unutilised capacity of the mandatory BESS.
- The long-awaited Solar Accelerated Transition Action Programme (Solar ATAP)** sets out several key guidelines that are broadly in line with expectations. These include: a) excess energy to be sold to the grid – based on system marginal price vs one-for-one offset; b) being subject to a 10-year contract and conversion to a SELCO framework post-expiration (similar to NEM); c) optional BESS installation with no minimal capacity; and d) residential installation capacity limited to 5kW for a single phase and 15kW for three phases.

Peer Comparison

Company	Ticker	Rec	Price	Target	Market	PE		EV/EBITDA		Dividend Yield	
			2 Jan 26 (RM)	Price (RM)	Cap (RMm)	2025F/2026F (x)	2026F/2027F (x)	2025F/2026F (x)	2026F/2027F (x)	2025F/2026F (%)	2026F/2027F (%)
Malakoff Corp	MLK MK	HOLD	0.83	0.90	4,056	24.9	15.5	5.2	4.7	4.2	5.4
Tenaga	TNB MK	BUY	13.78	16.30	80,326	18.0	16.9	5.5	5.3	3.7	3.8
Gas Malaysia	GMB MK	HOLD	4.36	4.25	5,598	14.0	13.1	8.3	7.8	5.6	5.8
Renewable Energy											
Pekati Group	PEKAT MK	BUY	1.66	2.00	1,173	25.5	20.6	8.6	5.8	1.2	1.2
Samaiden Group	SAMAIKEN MK	N.R.	1.39	n.a.	695	28.4*	22.4**	16.3*	12.9**	1.2*	1.2**
Solarvest Holdings	SOLAR MK	N.R.	3.12	n.a.	2,943	35.1*	26.7**	23.4*	18.6**	0.0*	0.0**
Sunview Group	SUNVIEW MK	N.R.	0.37	n.a.	210	23.1*	18.5**	9.8*	8.9**	0.0*	0.0**

* data for 2026F; **data for 2027F

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT
(Maintained)

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Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
Tenaga	BUY	16.30	5.5	3.7
Pekati	BUY	2.00	8.6	1.2

Source: Bloomberg, UOB Kay Hian

Malaysia's RE Mix Timeline Under The National Energy Transition Roadmap (NETR)



Source: MIDA

- **Slower-than-expected residential rooftop offtake.** Electricity prices are projected to decline in 1Q26 under the Automatic Fuel Adjustment (AFA) scheme (see RHS table). We believe rebates from the AFA rates adjustment would impede residential solar adoption, as the payback period would be extended to more than five years. The prolonged payback period is also contributed by the selling of excess energy generation to the grid at system marginal pricing (SMP) instead of a one-to-one retail pricing, under the Solar ATAP scheme.
- **Well-diversified players to fare better.** In 1H26, we believe EPCC players with diversified revenue streams will be well-positioned to mitigate the impact of a potential slowdown in residential solar uptake. Key players in the C&I segment, namely Northern Solar and Sunview, are expected to continue reporting strong revenue numbers, especially with the mandatory BESS adoption under the SELCO scheme. Large-scale solar EPCC players (including Solarvest, Samaiden and JS Solar) are expected to benefit from existing and future jobs under LSS5, LSS5+ and LSS6. Pekat continues to diversify into manufacturing of switchgear and benefits from TNB's upsized regulatory capex under Regulatory Period 4 (2025-27).

Valuation/Recommendation

- **Maintain OVERWEIGHT; elevated orderbook driven by 6-7GW of solar plant-ups.** We expect total solar PV capacity to exceed 6.5GW over 2026-27 as the government calls for tenders for the LSS6 and awards the inaugural MyBeST programme. Assuming a construction cost of RM2.0m-3.5m per MW, total EPCC replenishment opportunities are estimated at a staggering RM13b-23b in the next five years. **We reiterate OVERWEIGHT on the sector. Our sector top picks are Tenaga and Pekat.**

Sector Catalyst

- **ASEAN Power Grid to begin with REC framework implementation.** The Ministry of Energy Transition and Water Transformation (PETRA) and EC are actively engaging with Singapore's Energy Market Authority (EMA) to finalise the renewable energy certificate (REC) framework for cross-border electricity trade. This initiative is expected to serve as a key driver in advancing the ASEAN Power Grid, with ASEAN RECs currently under study and anticipated to be successfully addressed in a few years.
- **MyBeST awards first 1x 400MW BESS Project.** EC has announced four winners for Malaysia's inaugural grid-connected BESS project, known as MyBeST. Leading construction player, Gamuda and its associate ERS Energy (30% stake), secured two out of the four projects, with each location being allocated a capacity of 100MW/400MWh of BESS capacity under a 15-year power purchase agreement (PPA). We expect EPCC players with a strong track record in solar installations projects to be front-runners for the upcoming EPCC contract award. Each 100MW/400MWh of BESS capacity is expected to house about 90 containerised BESS units, each rated at 4.0-4.5MWh within 40-foot enclosures, occupying 5-7 acres of land. Respective projects are valued at approximately RM300m-500m per site, with EPCC margins expected to remain healthy (high single digit).
- **A base project IRR of 5-6% for MyBeST?** The BESS PPA will be structured into two tranches: a) capacity payment; and b) service tariff, for the charge and discharge of the energy stored inside the battery. Our channel check suggests that the project internal rate of return (IRR) – purely based on the capacity payment – could be as low as 5-6%. Assuming an additional service tariff of 2-3%, we expect the MyBeST project to yield project IRRs of 7-9%. This is similar to current large-scale solar projects, ie LSS5. Weighted cost of capital is likely in the region of 4.5-5% for most of the larger consortiums.

3-Month AFA Rate Forecast

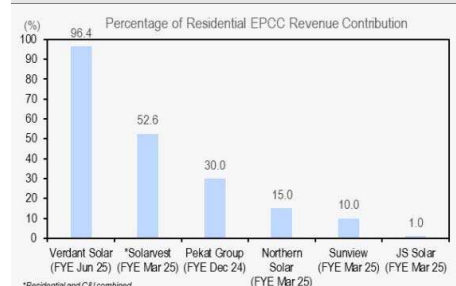
Automatic Fuel Adjustment (AFA) Rates		
1 – 31 December 2025	1 – 31 January 2026	
-6.42 sen / kWh	-4.99 sen / kWh	

3-Month Automatic Fuel Adjustment (AFA) Rate Forecast		
1 – 28 February 2026	1 – 31 March 2026	1 – 30 April 2026
-4.64 sen / kWh	-5.05 sen / kWh	-3.99 sen / kWh

* Updated as of 25 December 2025

Source: Tenaga

Residential Solar EPCC Revenue Contribution



Source: Respective Companies

ASEAN RE Installed Capacity Outlook RE Share of Installed Capacity in ASEAN (2015-2045)



Source: ASEAN Energy

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